

When politics and business clash: Newport WaferFab

At PROMPT we've worked with many stressed companies, but none have gone on to hit the headlines in quite the way Newport WaferFab has. Because after prevaricating for well over a year, the government has now decided that the Chinese take-over of the company - Britain's largest microchip plant - must be reversed. The decision was based on a potential risk to national security, brought into sharp focus by the current global shortage of semiconductors.

We know the company well because back before the Chinese take-over we were called in to support the directors in resolving working capital challenges. The company's historic R&D activities had been funded out of cash flow as the refinance strategy had stalled causing strain on working capital.

We were able to give directors rapid support in the shape of a detailed cash reporting and forecasting model, helping them to understand the true position of the business, and to embark on a refinancing strategy and resize of the company. We put them in a position where they could reduce the cash burn, and confidently seek both additional working capital, and longer-term R&D funding.

Our work gave the directors a firm platform on which they were able to continue to negotiate supply terms with their major customer Nexperia, a Chinese owned chip company, a relationship that later became a take-over. From a business perspective Nexperia had seemingly secured the company's future along with several hundred highly skilled jobs in a growing sector. However, whatever the business considerations, as the largest UK owned producer of silicon chips the importance of this takeover became a matter of National Security and politically important at the very highest level.

For over 30 years British governments of all complexions have been almost entirely supportive of foreign entities taking over UK companies. The argument has been that company shareholders must be free to make their own decisions over bids from foreign buyers, and subject only to anti-monopoly regulations, it's no business of governments and politicians to interfere. Take-overs are part and parcel of the competitive free markets, which are the foundation of all our prosperity. There's also evidence that successful foreign company buyers can open the door to technology transfer, and unlock access to increased capital funding, hopefully resulting in the acquired company making a bigger contribution to the UK economy going forward.

This British approach has contrasted sharply to the approach taken by governments elsewhere, most notably in continental Europe, where in general governments have been far less willing to allow foreign take-overs, especially of their so-called national champions. Take-overs have often been blocked, either directly, or indirectly, by the government owning blocking shares. For example, in 2021 the French government blocked a foreign take-over of supermarket chain Carrefour.

However, the rise of China and the growing political tensions between it and the West look set to change our take-over landscape radically. Until recently, the UK government has been one of the most welcoming for inward investment from China, but in 2020 - after mounting pressure from the US - the government banned Huawei from supplying equipment for Britain's 5G mobile phone network. And it has now walked back from previous high-profile commitments for Chinese involvement in Britain's new nuclear power plants.

Newport WaferFab has found itself caught in the middle of this rapid reconfiguration. And inevitably the case has become something of a political football. We can only wish the company well as it seeks a new way forward that makes sense from a business perspective.

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